RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Mar. 26, 1997 **LETTER 1222**

THE MARKET: In his annual report to Berkshire stockholders, "America's most successful investor," Warren Buffett, warned that stocks are "overheated" and investors risk paying too much for "virtually all stocks." Buffett even thinks his own stock, Berkshire Hathaway, is (or has been) overvalued. Unlike our Fed Chief, Buffett does not mince words.

Can Buffett or anyone else set off a bear market? Can the Federal Reserve reverse the tide? The answer to both is "No." When the great tide of the market is ready to turn, it will turn on its own -- without benefit of warnings, incidents, accidents or Fed action.

The question now is -- are we experiencing a mere correction in an overvalued stock market? Or are we witnessing hints of something a lot bigger? Unfortunately (and to be honest), there's not a man alive, there's not a group alive, there's not a study anywhere -- that can provide the answer. Consequently, we'll watch and wait.

What can we make of the market action of the past few weeks? On March 4 the D-J Transportation Average rallied to a new all-time high. In the last Letter I stated that it would be important for *both* the D-J Industrials and the S&P 500 to confirm any new Transport high. I added that a confirmation would entail the Dow bettering its February 18 high of **7067.46,** and an S&P confirmation would entail that Average bettering its February 18 peak of **816.29.**

The action that followed was rather unusual. On March 10 the Dow did confirm by rising to a new record high, closing at 7079.39. **However, the S&P refused to confirm.** The next day (Mar. 11) the Dow pushed slightly higher, closing at a new record high of **7085.16,** but again the S&P failed to confirm. At the same time the Utility Average and the bonds sank to new lows (I warned about a joint decline in both utilities and bonds in the last Letter).

Then on March 18 the Transports again rallied to new highs. But **this time neither the Dow nor the S&P confirmed.** Strange action indeed -- and ominous.

How safe or dangerous is the current market situation? Let me put it this way -- to my mind, this is a dangerous market. But rather than predict, let me repeat the downside levels which I considered critical (see last Letter). For the Dow the March 4 close of **6852.72** was very important. For the S&P 500 the important downside point was the February 28 low of **790.82. On March 19 both of those lows were violated.** As this is written, only the Transports continue to hold above their critical level of **2317.01** (the Feb. 28 low).

In the last Letter I referred to the "stealth bear market" that has enveloped the Nasdaq. The **Nasdaq 100** is already down over 11% from its January 22 closing high of 925.52. In the process many leading "tech" stocks have been clobbered. Tech indices on average are down 14%.

Meanwhile, *Investor's Business Daily's* **Mutual Fund Index** (23 leading equity growth funds) is down 4.5% for the year so far -- and back to its levels of last August.

On March 20 both the **D-J Utility Average** and the **bonds** hit joint new lows with the yield on the long bond pushing over 7%. I can't remember any time when the stock market has held up in the face of a persistent declining trend in utilities and bonds.

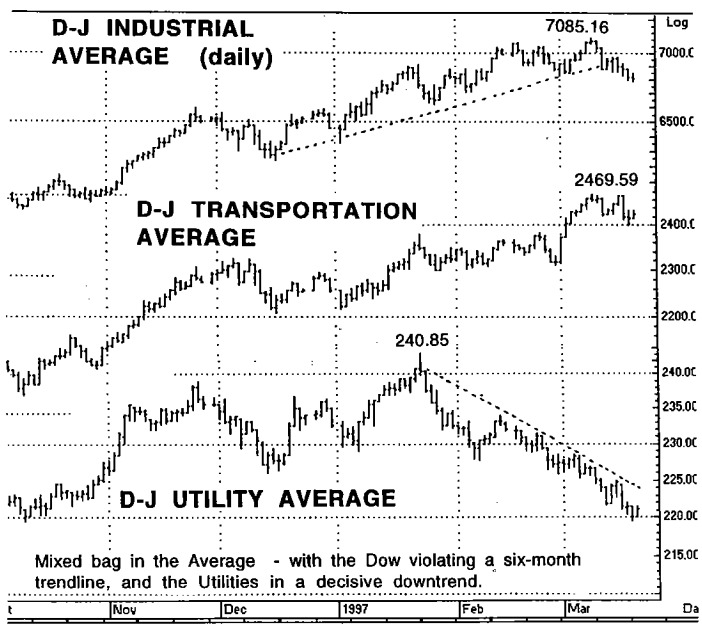
Mar. 14 DJIA 6935.46; PTI 4836; A-D Ratio +4.30
Mar. 28 DJIA 6804.79; PTI 4827; A-D Ratio +3.67
Dow Yield: 1.89%; Dow Price/Earnings: 18.7
Dow 144-day MA: 6468; Dow 34-day MA: 6889
Dow Times Book Value: 5.08; PTI 89-day MA: 4782
Percentage of Undervalued Blue-chips: 4%
Gold 144-day MA: 371

SWITCH: The complaint was that the D-J Industrial Average was deficient in representing today's dominant technology and consumer-services sectors. So two weeks ago Dow Jones announced its biggest change in the Industrial Average since 1959. Out go Westinghouse, Texaco, Bethlehem Steel and Woolworth. And in go a group more representative of the new information, high-tech, service economy -- Hewlett-Packard, Travelers, Johnson & Johnson and Wal-Mart. Why not Microsoft instead of HWP? Hewlett-Packard, the nation's #2 computer company, is more stable, less volatile. Why Wal-Mart? It's the world's largest retailer with 2,000 Wal-Mart stores and 400 Sam's Clubs. Why Travelers? TRV is giant in both insurance and brokerage. Johnson & Johnson, it's huge in health. I think Dow Jones made good moves all around.

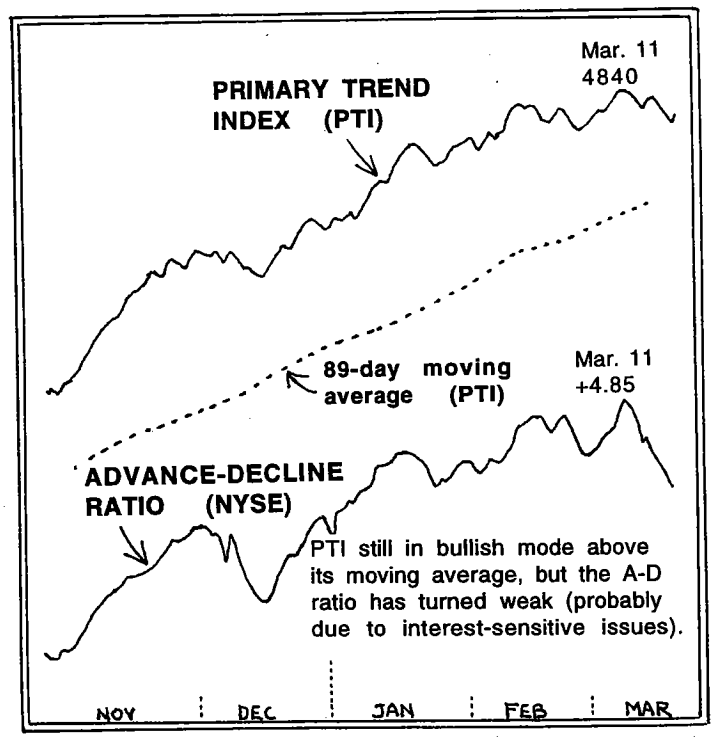
When I attended Rutgers (I spent my freshman year there before going into the Army) there was a big, ugly old brick building in town, the town being New Brunswick, NJ. That brick building was Johnson & Johnson (and every student's ambition was to date one of the Johnson girls). World War II turned JNJ (which made bandages, and all varieties of surgical and medical items) into a BIG company. From there JNJ became a powerhouse.

The mavens are already at work, and they've come up with this -- if only these changes had been made in 1991 the Dow today would be just short of 8000. My answer is -- so what. It's not the level of the market I worry about, it's the trend.

INFLOW: Money has continued to pour into mutual funds in staggering quantities. February saw an inflow of $12.8 billion into equity funds. The Vanguard group (one of the largest) enjoyed an



Mixed bag in the Average - with the Dow violating a six-month trendline, and the Utilities in a decisive downtrend.



inflow of $4.9 billion in January and $4.1 billion in February. Said Vanguard executive Brian Mattes, "We're pulling in about $200 million a day, which has been consistent since the beginning of the year." Vanguard's flagship fund is the Vanguard S&P which attempts to parallel the S&P 500. This fund roped in $1 billion of new investor money for both January and February.

NARROW: This has been one of the narrowest market rises that I can remember. Consider this: During 1995 and 1996, 50 stocks in the S&P 500 Composite accounted for 70% of the entire gain. Of the 50, 47 were among the S&P's largest. In other words, you really had to be in the "right" stocks to have benefited from the rise.

ACCELERATION: These fascinating "doubling statistics" were supplied by *Technical Trends,* PO Box 792, Wilton, CT 06897. So you have to ask -- "What's the next in the series -- 4000 to 8000?" Maybe, but personally, I doubt if we'll see that before trouble hits (and, of course, trouble is already hitting).

Dow Double to New Milestone	Date New Milestone Attained	Years to Double
500 to 1000	Nov. 14, 1972	16.7
1000 to 2000	Jan. 8, 1987	14.2
1500 to 3000	Apr. 17, 1991	6.5
2000 to 4000	Jan. 23, 1995	8.1
2500 to 5000	Nov. 21, 1995	7.3
3000 to 6000	Oct. 14, 1996	5.5
3500 to 7000	Feb. 13, 1997	3.7

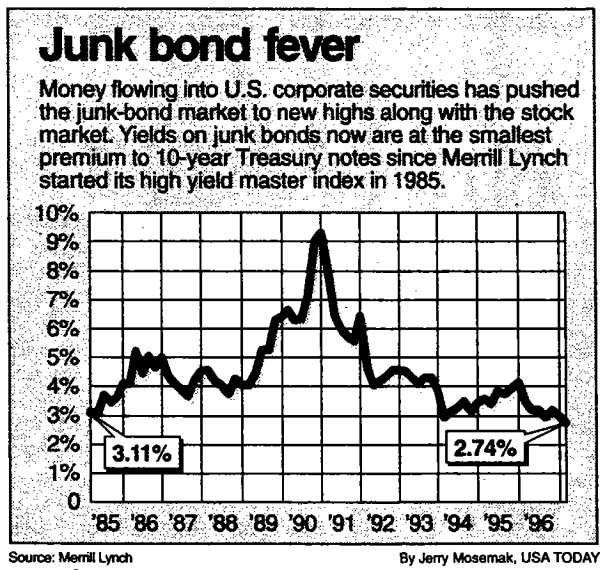
QUESTIONS: Two front page articles, one from the March 13 *Wall Street Journal,* the other from the March 12 *Christian Science Monitor,* both great newspapers. The *WSJ* piece suggests that we might well be entering a new "Golden Age," an age in which the entire world will enjoy increasing prosperity -- for years to come, maybe even decades to come. The *Monitor* piece tells of gold losing its luster as central banks move out of the yellow metal while at the same time moving further and further into the new world economy of paper and "electronic currency."

Do these two articles present an accurate picture of the exciting new world we are entering? Or should we take a *contrary opinion* on both predictions? With stocks not far off their all-time highs and gold just above a multi-year low, have these two articles been written just as the long-term trend of stocks and gold are about to reverse?

Ah, these are the billion dollar questions, and I blush to inform my faithful subscribers that I don't have the answers -- at least not yet. But as the wise man said, "Never search for answers which are unknowable; rather concentrate on asking the right questions."

COLD WATER: In the meantime, my old friend, Bob Prechter of Elliott Wave fame sent out a "Special Report" last week in which he states flatly and in headlines that we've seen "The End of the Great Bull Market." Bob isn't talking about just any top, he's taking a stand that we've seen the absolute end of the super-bull market that started many decades ago. And oh yes, Bob isn't saying that we're facing just any bear market. Comparing the coming bear market with the 1929-32 disaster, Prechter writes, "In the long run, this bear market will last significantly longer and be more severe." **Russell Comment:** Nobody I know has been a more avid student of the stock market and it's history. Frankly, I'd dismiss Prechter's views as far too radical (even crazy) -- except that I have too much respect for him, his intelligence and his studiousness.

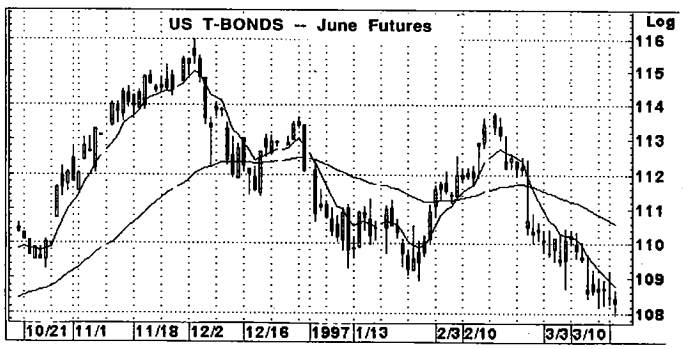
BOND EXUBERANCE: If Prechter is correct in his prediction, he hasn't frightened anyone in the bond area yet. For instance, how much confidence do bond investors have regarding the markets and the economic picture? This chart tells us a lot. The yield on junk bonds (i.e., low-rated bonds) now shows the smallest premium over "super-safe" 10-year Treasury bonds since Merrill first started this study back in 1985. In other words, the yield on junk bonds is currently only 2.74% over the yield on 10-year T-bonds. If investors were worried about the credit picture, the *yield spread* between the two bonds would surge -- note that in late '90 the spread rose to over 9% (in '90 and '91 that exuberant period collapsed amid massive defaults, banks in trouble, plus a credit crunch).


Junk bond fever
Money flowing into U.S. corporate securities has pushed the junk-bond market to new highs along with the stock market. Yields on junk bonds now are at the smallest premium to 10-year Treasury notes since Merrill Lynch started its high yield master index in 1985.
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0
3.11%
2.74%
'85 '86 '87 '88 '89 '90 '91 '92 '93 '94 '95 '96
Source: Merrill Lynch
By Jerry Mosemak, USA TODAY

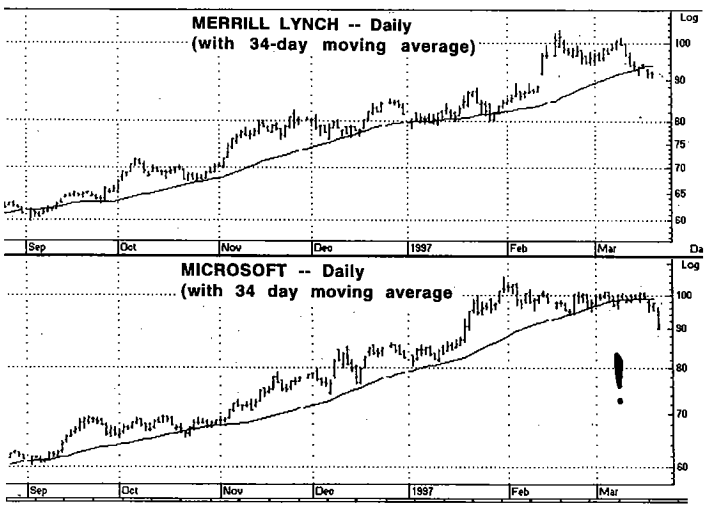
INVESTMENT POSITION: The bull (a small and shaky one) remains in the box, although if you own a selection of Nasdaq stocks or the wrong mutual fund you're wondering why even this mini-bull is still hanging around.

At this time we see cracks in the bull structure -- new lows in the Utility Average, weakness in the advance-decline ratio, collapses in many of the tech stocks, a breakdown in the Nasdaq, persistent weakness in the Mutual Fund Index (now down 6% for the year), 7% yields on the long bond. We see cracks in the structure, but if this is the beginning of a true primary bear market, it's early in the game. At this point I'm waiting to see whether my PTI holds above, or breaks below, its 89-day moving average. Only the PTI and the Transportation Average are keeping me from turning even more bearish . . . and T-bills are looking increasingly attractive.

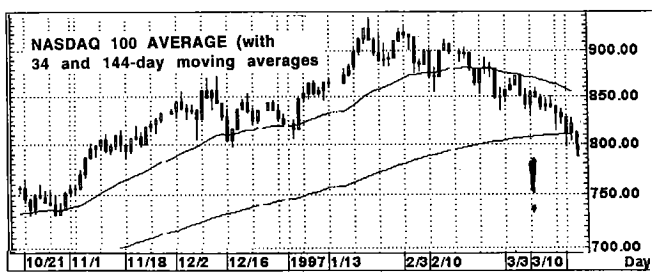
PLACES WHERE I'M WATCHING: I'm watching the **Treasury bonds,** which have broken to a multi-month low. Note on the chart that the 34-day moving average (MA) has now dropped below the longer term or 144-day MA. The trend of the bonds is definitely down, although they are also becoming oversold. Naturally, I'm also watching the **D-J Utility Average** (see page 1 chart) which has been sinking to new lows for the year. A joint downtrend by **both** bonds and utilities produces a negative background for the stock market.



If I had to pick one stock as a bellwether for the entire market it would be **Merrill Lynch.** The best publicized "glamour stock" would have to be **Microsoft,** which is headed by "the world's richest man." Here are the charts. MER is hanging on, but that's about all. MSFT, however, broke wide on Monday, falling well below its 34-day moving average. I haven't figured how much the break cost Bill Gates, but it certainly didn't help the Nasdaq 100, which seems to be going into the tank.



Meanwhile, I've been watching the "stealth bear market" in the Nasdaq 100, an important average which has been trending relentlessly lower day after day. On Monday, the Nasdaq 100 broke below its 144-day moving average, which opens the way for a freefall. The beloved tech stocks are finally become unloved.



DEFYING THE ODDS: What has made veterans and old-timers so phobic about this bull market? The answer is that this is the market -- that more than any other in Wall Street history -- has defied the odds.

What do I mean by "defying the odds"? Here's what I mean. **(1)** The **Dow** and the **S&P** are selling at dividend yields below 2% for the first time in history. **(2)** Both are selling at extremely high price/earnings ratios (around 20), considering that corporate earnings are at record highs (P/Es of around 20 or better are almost never seen except when earnings are heading down). **(3)** The Dow is selling at a record 5.23 times book value while the S&P is selling at 4.6 times book. **(4)** The stock market is now selling at a dangerous 135% of GDP. **(5)** Incredibly, the Dow has not closed below the low of a preceding year's low since 1982, a record span. **(6)** The Dow has not suffered as much as a 10% correction on a closing basis since 1990, a record span. **(7)** The Dow has, so far, avoided any semblance of a real correction during the "dangerous" decennial years 1996-1997 (of course, the year 1997 is not yet over).

Very few people realize how unusual #7 is. Never in the history of Wall Street has the market escaped trouble somewhere in the two-year period of the decennial years ending with 6 and 7.

My friends at *Quote Digest* (Box 6600, Rapid City, SD 57709) have assembled this remarkable study of stock prices during years ending in 6 and 7 going back to the period of 1856-57. The smallest decline seen during this two-year period was 16.7% in 1926-27. The average decline for all 14 periods listed was 32%. The average decline for the nine periods of the Twentieth Century was 35.9%.

DJIA LARGEST DECLINES THAT STARTED DURING 6TH & 7TH YEAR DANGER ZONE

	Date of Decline		
Date	From	To	% Decline
1856-57*	1/57	10/57	-57.2%
1866-67*	10/66	4/67	-19.3%
1876-77*	2/76	4/77	-36.4%
1886-87#	12/86	10/87	-17.8%
1896-97	5/96	8/96	-30.4%
1906-07	1/06	11/07	-48.5%
1916-17	11/16	12/17	-40.1%
1926-27	2/26	3/26	-16.7%
1936-37	3/37	3/38	-48.1%
1946-47	5/46	10/46	-23.2%
1956-57	4/56	10/57	-19.4%
1966-67	2/66	10/66	-28.5%
1976-77	9/76	2/78	-26.9%
1986-87	8/87	10/87	-36.1%
		Average	-32.0%
1996-97	5/96?	7/96?	-7.5%?

* Clement-Burgess Index of Stock Prices
\# Dow Jones 12 Stock Average

Now we have the entire year 1996 behind us and we're into the first three months of 1997. What's the record so far? Between May 22, 1996 and July 28, 1996 the Dow declined 7.4%. That's it -- that represents the largest decline so far in the 1996 to March 1997 period.

The question -- "Is that all there is?" The 7.4% correction of '96 may be all there is, but you can see why old-timers and market historians continue to be nervous.

VALUATIONS: I've talked about market overvaluation in dozens of previous Letters, but I feel that the information below is crucial to understand.

I read dozens of magazines, newspapers and advisory services each week, but the *best* information and research on stock valuations that I've come across comes from *Hussman Econometrics* (810 553 8383). Here's what Dr. Hussman says in his latest report: "On a valuation basis, this is the most expensive market in history. Not only on the basis of dividend yields, but also on the basis of price/earnings, price/book, price/sales,

capitalization/GDP and a host of other fundamentals. In the recent reporting period, earnings have climbed to a new record, yet the S&P 500 still sells at a P/E of over 20. Never before in history has the market applied a P/E multiple of over 20 to record earnings. As noted last month, the average P/E when earnings have climbed to a new record high has historically averaged just under 12.

"There is only a small portion of market history, about 10% of the time, when stocks have been at overvalued levels and interest rates have been trending higher at the same time. Every major market crash in history (including 1929, 1973-74 and 1987) has emerged from this one combination of conditions. This is important because unless interest rates turn sharply lower over the next several weeks, we expect to enter this most unfavorable of climates by the end of May."

RUSSELL COMMENT: As you know, interest rates have been moving **UP** since February 14 (February 14 marked the high day for the year on the long bond). Thus the market is now in the area which Hussman labels "the most unfavorable of climates," that is, UNLESS interest rates start down.

NOTES & QUOTES: With stocks having climbed for years, everyone is wondering why there's "no inflation" (that is, as long as you're not talking about school tuition or taxes). I have an answer to the "non-inflation mystery." The answer is that pricing power (i.e., the ability to raise prices) has gone out of the market. The reason -- ***over-supply*** in many areas and continuing vicious international competition.

Without the ability to raise prices, corporations have turned to downsizing, which means firing workers and jettisoning uneconomic divisions. This process has done wonders for corporate profits, but many believe that this process is coming to an end. The *WSJ* (Mar. 11) writes, "So despite Mr. Greenspan's inflation worries, in the stock market, at least, there is little evidence of strengthening pricing power. If anything, pricing power seems to be fading. Most amazing, it's happening in the sixth year of an economic expansion. 'Normally, capacity would be tight, costs would be rising and it would be easy to raise prices,' says David Shulman, chief stock strategist at Salomon Bros., 'but we haven't seen that'. . . A survey by Prudential Bache found that the proportion of industries raising prices dropped in the current quarter from 1996 while the proportion lowering prices rose. . . . It's price-conscious consumers, it's international pressure, it's increased concern on the part even of producers selling domestically that their competitors will seek market share aggressively."

Taxes: "Freedom Day," which indicates the *number of days* the average American must work in order to pay all taxes, keeps advancing to new records. In 1975 Freedom Day was April 27; in 1985 it was April 30; in 1995 it was May 6. In 1995 (latest figures) the index of taxes as a percentage of total income reached 34.4%, highest since 1940 (it is even higher now). By the way, my own Freedom Day (thanks to California's high taxes) is July 1. **Note:** Last week President Clinton quashed any move towards a change in the tax system, a change many Republicans want (i.e., the flat tax, consumption tax). Clinton continues to be the nation's single greatest force AGAINST change.

What's the future of gasoline? First, there's the emergence of the electric car. And now Mercedes-Benz has presented its latest research vehicle at the Paris show, the F300. It's a super-slick, fly-weight sedan that can achieve 100 miles to the gallon. The body weighs only 1760 pounds and consists of an extremely rigid steel structure clad with panels made of aluminum, magnesium, titanium and various synthetics. A turbo charged, direct-injection, 1.8 liter, four-cylinder engine develops about 110 bhp. *Automobile Magazine* states that "this clever research vehicle is a good indication of things to come."

Jesus said, "The poor we'll always have with us." Have you ever wondered why? This from the March 7 *Human Events: "Mankind's history is mostly of grinding poverty. Poverty is no mystery. People are poor because they can't produce things highly valued by their fellow man. The real mystery is how did a tiny portion of mankind's population, for only a tiny part of history, manage to escape poverty."*

The answer is *freedom.* There's a direct correlation between the amount of freedom a nation has and its economic level. The article continues, "Arrange countries according to human rights protections, per capita income and whether their systems tend more towards free markets or extensive government control. Hong Kong, Switzerland, the US, Canada and Germany have great economic liberty and are at the top. Romania, Somalia, Hungary, Syria, Brazil, Zaire, and many others with highly restricted liberty are at the bottom. At least 25% of the human race continues to live under brutal authoritarian conditions and almost unthinkable poverty."

There's increasing talk in Europe of the EMU (i.e., the single European currency) being *delayed.* Actually, strictures connected with qualifying for EMU are being blamed in many quarters for Europe's current economic problems -- mainly, record **unemployment.** A second problem is that Germany ("the locomotive of the European economy") has fallen slightly short of meeting the deficit criteria under the Maastricht rules. If Germany cannot meet the criteria, its powerful bargaining and leadership position would collapse. Of course, in Germany itself there is strong opposition to giving up their beloved D-mark in favor of the EMU. The EMU, it is thought, will never be as powerful and trustworthy as the D-mark. As far as participation in the new European union, the following nations are slated to join: Belgium, Germany, Denmark, Spain, France, Ireland, Italy, Luxembourg, Holland, Austria, Portugal, and Finland. Greece, Sweden and the UK are, so far, out.

Latest: With rising doubts about bringing in the EMU on schedule, the D-mark has rallied well off its March 6 low of .58 to the dollar. If the EMU is in doubt, investors are turning back to the currency they trust -- D-marks.

What's happening in **Hollywood?** Like our politicians, Hollywood is on a mad search for MONEY. The big "event movies" have taken over, and hundred million dollar disaster movies are coming out of the walls. As *Entertainment Weekly* puts it, "Intent on squeezing every last nickel out of their budget-busting 'event' movies, the big studios have forfeited character, plot -- and the Oscars -- to the independents. . . Today's studio executives believe that any movie worth making is worth making only for an obscene amount of money. They believe that bigger isn't just better -- it's financially essential." States one former studio head: "It's less risky to make an $80 million Event Movie, because you can sell it globally and merchandise it with consumer products. You're better off making two or three $80 million movies than 15 movies for $20 million." Says another exec: "The mid-range movies don't make sense anymore. They're going away." In their place the studios are making even lower budget movies.

"You look at the number," says a former studio head, "the syndications, the video sales, the print ads. . and you realize you're better off making an Event Movie because the upside is so terrific." When an Event Movie hits, says *Entertainment Weekly,* "the cash flow is a thing of beauty to behold. *Mission Impossible* has so far downloaded more than $450 million worldwide. *Twister* has swept almost $500 million in global ticket sales. And *Independence Day* has made enough to turn an alien green, grossing almost $800 million worldwide. With numbers like these, no wonder the studios are hooked." **Russell Comment:** That's Hollywood today. Or at least as long as they can sell Event Movies around the globe for big bucks. After all, who needs an Academy Award when a big junky movie can bring in better than half a billion dollars.

Talking about dollars, here's the latest on the **US National Debt.** As of last week the Debt had climbed to $5.363 trillion, up from $5.016 trillion one year ago. So the 12-month addition to the national debt amounted to **$347 billion** or roughly one billion dollars a day. Clinton may talk about "balancing the budget by 2002" but that interest on the debt keeps pushing the national debt up and out into space.

Statistics: Savings rate in Sweden 12.9%; in Japan 11.5%; Germany 11.3%; UK 9.8%; Canada 6.1%; US 5.2%. . . A baby born in the US in 1997 has a life expectancy of 76; in Japan 80; in Russia 64. . . Percentage of men 65 or older who worked full time in 1950 was 46%. In 1993 it was 16%. . . Average age of Americans who buy luxury cars is 65. . . Women over 65 are three times as likely as men to be widowed. Widowers over 65 are seven times as likely to remarry as women . . . According to UCLA researchers, interest in business careers is at a 20-year low. . . The top goal of today's students is to be "very well-off financially" . . Women have eclipsed men in their use of tobacco, liberal political leanings and intent to pursue graduate degrees. . . Women now outnumber men in both medical and law schools. . . One in four freshmen come from a divorced family. . . How's this for a shocking statistic -- the median total net worth of a family in the 35-45 year age group is $35,000. Here's another beaut: the share of the US national debt owed to each family unit of four is $78,000. . . . US budget for intelligence is estimated at $25 to $30 billion a year. Number of people employed by the CIA -- 80,000. . . Personal bankruptcies in '96 at over one million ran 27% above the '95 level. Worst area for bankruptcies -- central California.

Two items you should not miss: In this month's *Playboy*, an interview with very angry lawyer and ex-prosecutor Michael Bugliosi (what he says about the Simpson trial is worth the price of the mag). And the March 10 *New Yorker* piece on Michael Bloomburg, who seems to be taking over Wall Street's (and maybe the world's) information factory. ("Why does America's newest media mogul scare Dow Jones?")

As for Bloomburg, there's the Bloomburg black box (instant quotes, news, ratios -- you name it), the Bloomburg magazine, the Bloomburg TV station, and maybe next, the Bloomburg newspaper. Bloomburg sales in '96 near $1 billion, net around $200 million, 3,000 employees today and 4,000 by next year. And it's a private company, you can't buy the stock.

What's happened to the **Republican party?** This from Evans & Novak: "Morale in the GOP is extremely low, as though the Republicans had lost instead of retained control of Congress. **(1)** The diagnosis is clear. The Republicans have no clear vision, no agenda, no recognized national leadership. For the first time in more than thirty years there is no heir apparent for the GOP presidential mantle. **(2)** The Republicans have slipped into Clinton's balanced budget trap. They've been waging a weak attack on his budget. **(3)** House and Senate Republicans are on different wavelengths. Senate GOP leaders privately accuse their House counterparts of playing on the Dem's terrain. **(4)** Republicans flinch from their core issue -- TAX REDUCTION. **(5)** For the first time, Republicans are really worried about holding the House in '98." **Russell Comment:** Clinton, so far, has made hash out of the GOP.

The Internet providers are fighting it out, and the "all you can eat" policy (i.e., one flat charge for unlimited service) has been a killer for them. In the past year alone America Online (the largest) lost $477 million, CompuServe (second biggest) lost $103 million, Microsoft (the third biggest) did not disclose losses, but it is reckoned they are big.

The shakeout in the auto business in Europe has begun. Some say there is excess capacity in Europe of 3 to 4 million units. Renault announced that it would cut 2,800 jobs in France this year and close its Belgian factory on July 31 idling 3,100 workers. Ford said it would cut 900 workers in its Halewood, England factory. Car sales in Western Europe peaked in 1992 at 13.5 million.

I've wondered about President Clinton's 60% favorable ratings in the current polls. With a new scandal every other week or so, his high ratings are incredible. Sleepovers in the Lincoln bedroom, Presidential coffee with a Chinese arms merchant, Vice President Al Gore dialing for dollars from his White House office. Where's the anger? What are people thinking? Here's what I think is the current psychology: "Clinton's a scoundrel, but so are most of the politicians of both parties. Clinton is just more of a scoundrel than the others, but what the heck -- the stock market is up and jobs are plentiful, so what do I care about what these bums in Washington do. It has nothing to do with me, anyway."

Writes Russell Baker in a *NY Times* (Mar. 11) editorial: "Public respect for the governing classes seems so low that we have become numb to scandal. Does anyone here believe that once this tale of dirty money is played out, these political panhandlers will change the method of financing campaigns? They like it this way. It's the system that gets them elected and re-elected. Senate leaders, obedient to the private desires of their followership, are already trying to put the kibosh on the investigation of the money scandal. Who cares?" **Russell Comment:** Public outrage? There isn't any. Hey don't we feel good!

The current "in" phrase, which pretty much reflects the political situation in Washington, is "Show me the money." That expression got popularized via the movie, "Jerry MaGuire." Cameron Crowe, who wrote the movie script, says that he used to spend a lot of time with NFL players. In talking to corner, Tim McDonald, Tim said that he was negotiating with another team and he told them that basically it's come down to a situation "where they have to show me the money." Crowe said that McDonald's expression, "show me the money," stuck in his mind, and he gave it a prominent place in the movie. The expression hit the consciousness of the nation, and now you hear it everywhere.

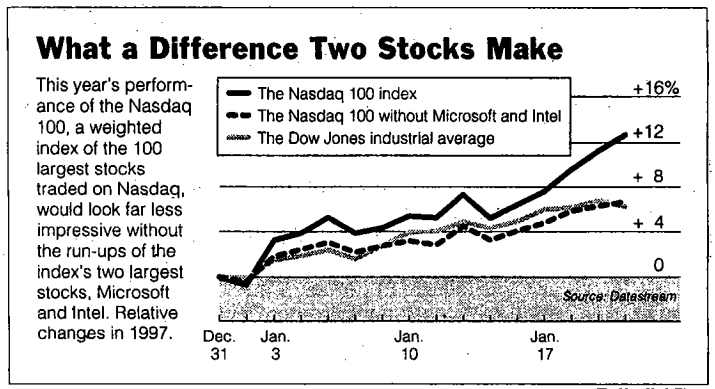
The eyes of the auto industry (and Wall Street) are again on H. Wayne Huizenga. Wayne, after creating and selling Waste Management and then Blockbuster Entertainment, is now moving to take over the car business with Republic Industries and his huge Auto Nation USA. Wayne, who has been buying car dealerships and rental companies by the handful, doesn't just want to take over the used car business, he wants new cars and rentals too -- Huizenga wants it all. Old hands in the business claim it can't be done, that this time Huizenga is biting off more than he can chew. So keep your eye on RWIN (Republic Industries), it's pattern on the charts will tell you whether Huizenga is on his way to new and untold riches, or whether he's heading into a brick wall. Note that RWIN has a "win" in its symbol. Wayne probably put it there.

Is anything safe? Now it turns out that the Russians are turning out beautiful copies of our new "fool-proof" hundred dollar bills (the US Treasury called them "one of the most secure currency notes in the world"). Arrests have been made in Russia and already $22,000 in counterfeit hundreds have been confiscated. Said St. Petersburg police spokesman Marina Kozlova, "the bill's quality is very high and practically all levels of defense were reproduced on the fake bills."

When I was a little guy (I'm talking about the late '20s) doctors discouraged women from breast feeding. The good doctors held that breast feeding was insanitary, messy, not particularly healthful and worst of all -- out of the doctors' control. Then came the '60s and many of the old, up-tight customs fell away. Next, during the '80s, doctors decided that maybe there was something to breast feeding after all, and in breast feeding not only were mothers giving their infants the "perfect food," but they were transferring their immunity to their infants. Ah, but then the politicians came into the picture, and it was held that it was all right for moms to breast feed -- but definitely not in public. Came the '90s and the laws (in most places) changed -- suddenly moms could breast feed any place they wanted. But certain uptight individuals continued to complain that breast feeding your baby in public was obscene. But wait -- now the legislature of the great and sovereign state of California has introduced a bill that states in no uncertain terms that mothers can breast feed anywhere they darn please -- at the mall, in

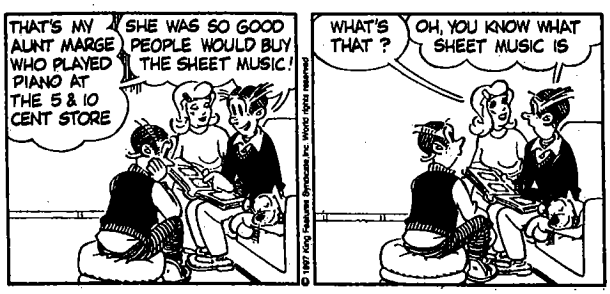
a hotel lobby, on a park bench -- ANYWHERE. In the future, busybodies, bank guards, hotel attendants and such will not be allowed to tell mom, "Hey, do it in the restroom." Babies will be demand-fed, mother will not be harassed and time marches on.

The chart below tells us something about today's market. It tells us that without the runup of two stocks, **Intel** and **Microsoft,** the Nasdaq would have risen (at its recent high) only 5% rather than the better than 12% with the inclusion of INTC and MSFT. What about enthusiasm and hopes? Consider this -- the combined market value of Intel and Microsoft is now $224 billion. This equals the combined value of General Motors, Ford Motor, Boeing, Eastman Kodak, Sears Roebuck, J. P. Morgan, Caterpillar and Kellogg. I call it "'90s Madness."


What a Difference Two Stocks Make
This year's performance of the Nasdaq 100, a weighted index of the 100 largest stocks traded on Nasdaq, would look far less impressive without the run-ups of the index's two largest stocks, Microsoft and Intel. Relative changes in 1997.
The Nasdaq 100 index
The Nasdaq 100 without Microsoft and Intel
The Dow Jones industrial average
+16%
+12
+ 8
+ 4
0
Source: Datastream
Dec. 31
Jan. 3
Jan. 10
Jan. 17
The New York Times

Last week I used the expression, "Five-and-Ten Cent Store," and I drew blank looks from a few of the young ladies in my office. They wanted to know what a Five-and-Ten was. I told them that in "the old days" Woolworth, Newberry, Kreske, WT Grant, Murphy, these store chains were all called Five-and-Tens because almost all the items they sold cost either a nickel or a dime. Many times my mother would send me to the Five-and-Ten on the corner of Broadway and 79th Street (NYC) where a Woolworth's or Five-and-Ten was situated -- I was sent to buy a few spools of thread (a nickel each), a pack of gum (another nickel), and maybe a few bars of soap (ten cents each). Somewhere along the line (was it in the early '50's?) the stores began stocking 25 cent items, and I was shocked. Today the old Five-and-Tens are just memories, and I wonder why the Government even bothers to mint pennies and nickels or even dimes. This column was triggered by this comic strip (Gad, I'm beginning to feel like I'm from another century -- five-and-tens, nickel hamburgers at White Tower, twelve cent gas, a 17 cent pack of cigarettes, a Sunday dinner for 90 cents, ah well).

BLONDIE By Dean Young and Stan Drake


THAT'S MY AUNT MARGE WHO PLAYED PIANO AT THE 5 & 10 CENT STORE
SHE WAS SO GOOD PEOPLE WOULD BUY THE SHEET MUSIC!
WHAT'S THAT ?
OH, YOU KNOW WHAT SHEET MUSIC IS
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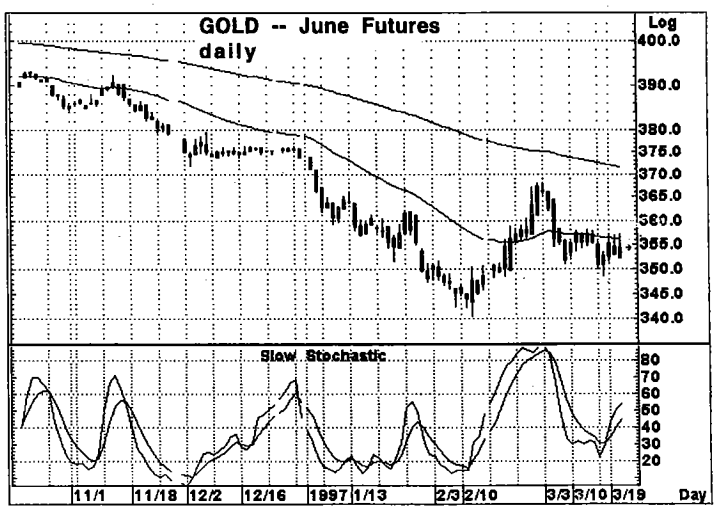
Next Mailing April 9, 1997

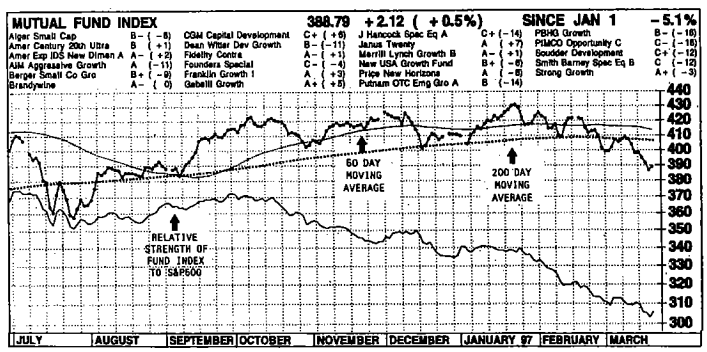
GOLD: I've been getting an increasing number of calls about gold. Everyone wants to know if "this is it? Is gold ready to take off?" Here's the chart showing the June gold futures. The extreme intra-day low was struck on February 12 at **340.6.** From there June gold surged to an intra-day high of **368.1** on March 3. The rush to the March 3 high left gold heavily overbought (up almost 10% in a month). Next came the correction, which is where we find gold now.

Personally, I think we've seen the low for gold. But the real test will come if or when gold attempts to better its March 3 high of 368.1 (June contract). The 34-day moving average (see chart) now stands at 356, and the longer-term 144-day MA stands at 372. Gold's job -- first for the June futures to move decisively above 356, and then to try for 373. The stochastics at the lower part of the chart indicate that the trend is up for gold. Further food for gold-bulls is the fact that all the precious metals -- platinum, paladium and silver have surged well off their lows.



LATE NOTES: Stock market action has turned rather ragged with air-pockets appearing in such blue chips as Kodak and Philip Morris. As this is written, the market is oversold and "should rally" -- so it will be informative to see whether a decent rally can come from this "oversold area." If the market can't rally from here, the implications are ominous. Bull markets rally from oversold areas, but bear markets can *remain oversold* for extended periods of time.

Many of the "momentum" mutual funds have been badly burned this year with losses of 10% to 17% not uncommon. Below is a chart of Investor's Business Daily's Mutual Fund Index, down around 5% so far for the year.



Late Note to Myself: My 19-year-old son, Ryan, who I haven't seen for months, has just arrived; he and two buddies drove all night and arrived here at 4AM. Ryan is six foot two, and I gather he is dwarfed by his two friends (they all play water polo for Cal Berkeley). The boys will be up at 10AM, breakfast, and then at 1PM, they're off to San Filipe, Mexico, for spring break. With any luck, I may see Ryan for a few minutes before they leave.